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Charles L. WardGovernment Affairs Director

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February 8, 1995

Mr. William F. Caton Acting Secretary Federal Communications Commission 1919 M Street, N.W., Room 222 Washington, D.C. 20554

RE:

Ex Parte Presentation

[CC Docket 79-252, 93-197, 80-286]

Dear Mr. Caton:

On Wednesday February 8, Neil Briskman, Daniel Clark, Al Lewis, Michael Murphy, Gerard Salemme and I met with Anna Gomez, Kathleen Levitz, Michael Katz, Geraldine Matise, Richard Metzger, John Muleta, Mary Beth Richards, James Schlichting, Mark Uretsky and Kathleen Wallman to discuss the above-captioned dockets and the attached presentation materials.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely, Ward

Attachments

cc:

Ms. Anna Gomez

Ms. Kathleen Levitz

Mr. Michael Katz

Ms. Geraldine Matise

Mr. Richard Metzger

Ms. Mary Beth Richards

Mr. James Schlichting

Mr. Mark Uretsky

Mr. John Muleta

Ms. Kathleen Wallman

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D.L. Clark M. Murphy February 8th, 1995

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Competition - Definition

Three characteristics define and describe the intensity of competitive markets.

Customers' Freedom of Choice

- Degree of segmentation
- Availability of choice
- Factors influencing the buying decision
- Frequency of choice

Competitors' Rivalry

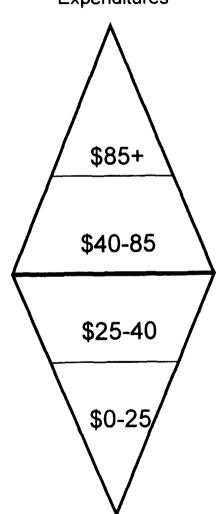
- Number
- Size
- Resources

Level of Market Activity

- Advertising and marketing efforts
- Proliferation of features, services and promotions
- Expansion of distribution and sales capacity

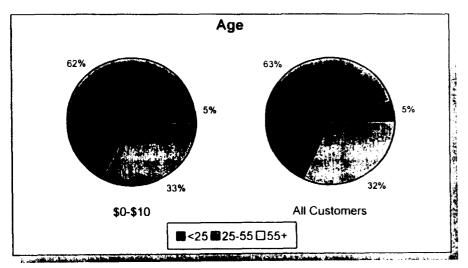
On a total telcom basis, all segments are significant.

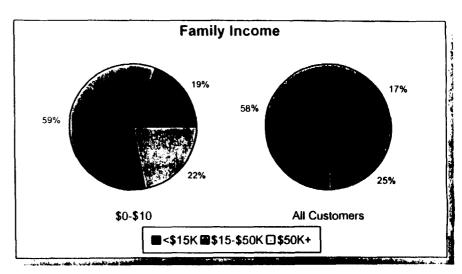
Wired Telecom Expenditures

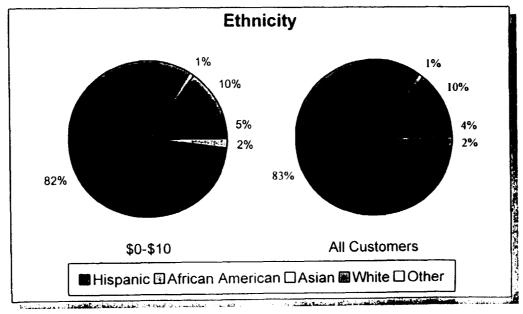


% Customer Base	% Telecom Revenue	Average Telcom Revenue	Average LD Revenue	Average IntraLATA Revenue	Average Local Revenue
11%	29%	\$131	\$77	\$26	\$28
39%	43%	\$57	\$24	\$10	\$23
37%	23%	\$33	\$9	\$4	\$20
13%	5%	\$21	\$ 3	\$2	\$16

Customers with lower long distance usage are similar to all customers along several key demographics.





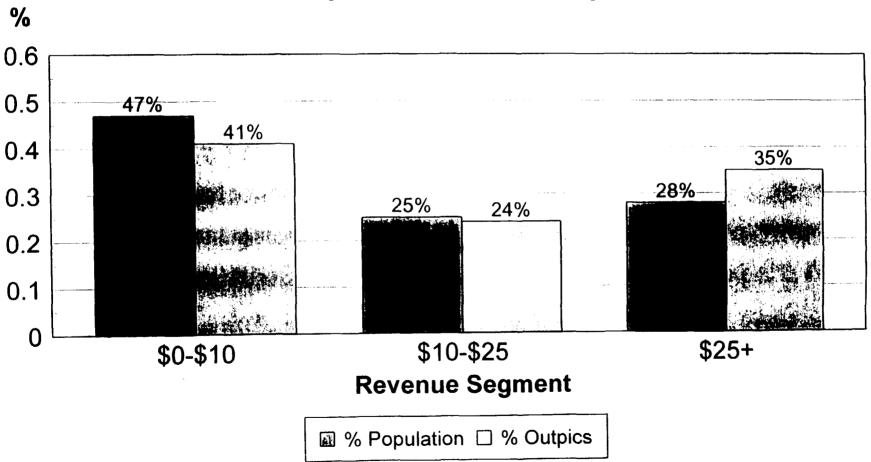


Customers with lower long distance usage are still very active communicators.

- 69% of low LD users are heavy local and intraLATA users
- 52% of low LD users are bridge builders and local socializers heavy communicators
- Low LD users have the highest preference for a single source provider

Lower usage customers are as likely to make choices about long distance companies as all other customers.





Customers can choose and change long distance companies with great ease and with many opportunities. In 1994, each adult aged 18 to 49 was "touched" approximately 330 times by a consumer long distance sales message.

Traditional Marketing

(over 39B contacts)

- Advertising
- Direct Mail
- Telemarketing

Non-Traditional Channels

(over 30M contacts)

- Partnerships
- Affinities/charities

Customer Initiated Marketing

(over 90M contacts)

- Household moves/changes
- Additional lines
- Servicing

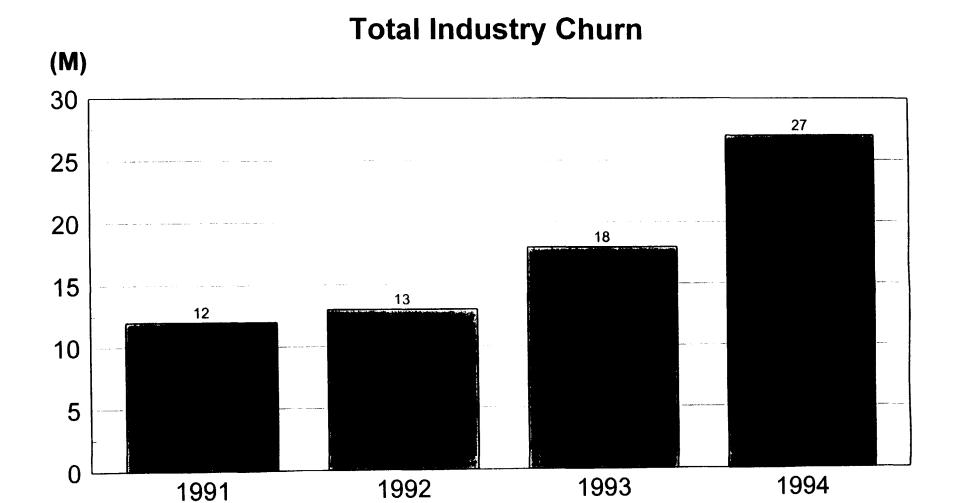
Although price is a primary driver of a customer's buying decision in competitive markets, other factors such as brand, reputation and service quality are also important.

"Reflective/Deliberative" Buying Context

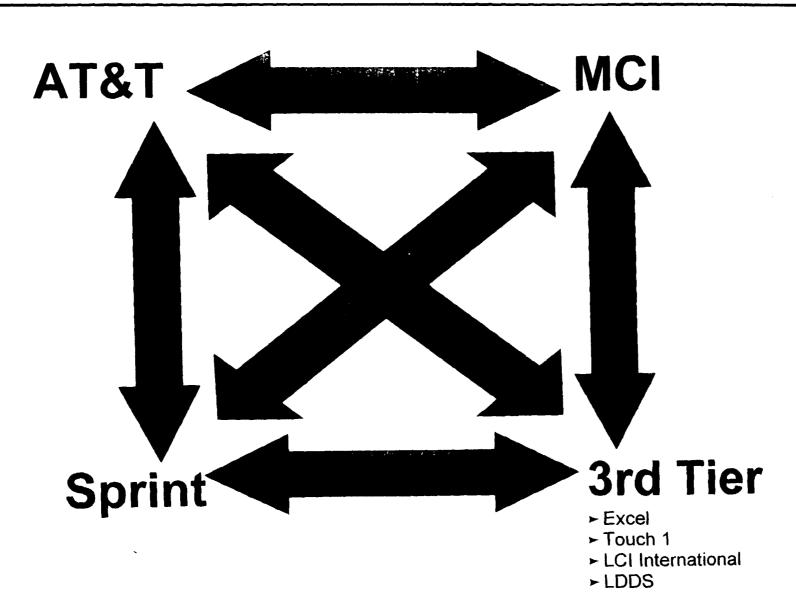
Price	Customer Service	Call Quality	Brand	Billing	Features/Functions
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"Hot" Buying Context Features/Functions					Ş	
	Price	Customer Service	Brand	Billing	Call Quality	

About 30M customers change carriers annually - indicating a market of free choice.



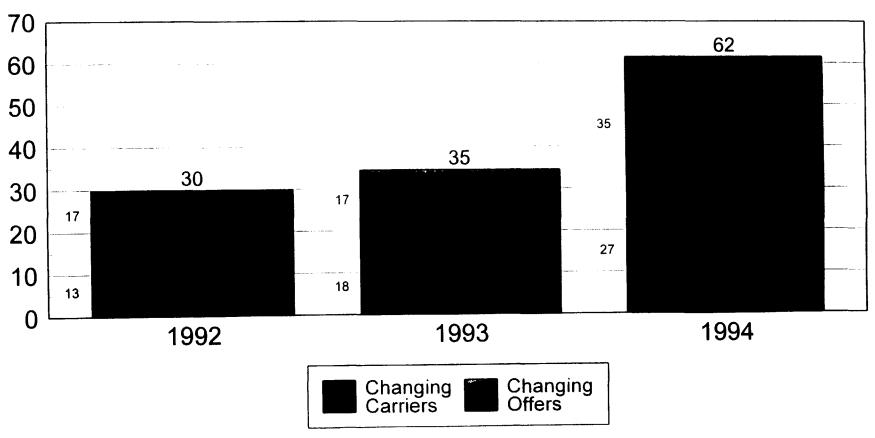
Customers are choosing and changing long distance service among many carrier choices.



An overlay to customer churn and also a significant sign to the competitiveness of the industry is the increased changing of offers by consumers who remain loyal to a carrier.

Customer Offer and Carrier Churn

Customers (M)



The competitive landscape has changed dramatically over the last 10 years with over 1000 companies competing in the long distance consumer market.

National	
Competitors	•

1984 - AT&T - MCI - Sprint - Telecom USA - ITT - Allnet

MCISprintLDDSWilTelAllnet

- AT&T

<u> 1994</u>

Regional Competitors

Western Union

- Excel
- Budget Call
- Touch 1
- LCI
- NTC
- Vartec
- Working Assets
- RCI/Frontier
- US Long Distance
- SNET
- Dial & Save
- Over 1000 Other Resellers

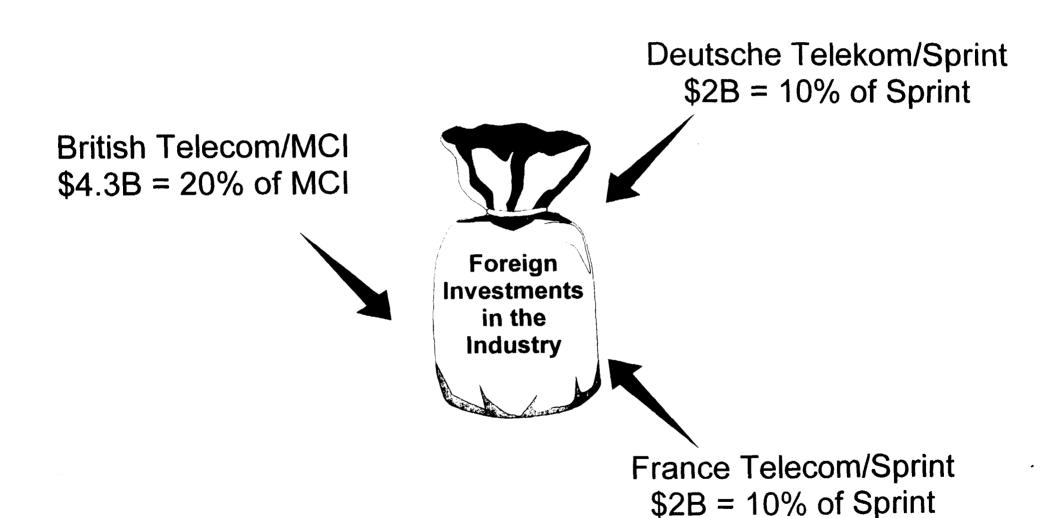
MCI and Sprint have become strong competitors experiencing significant growth since 1984.

1993/94 Selected Operating Metrics U.S. Telecom Industry

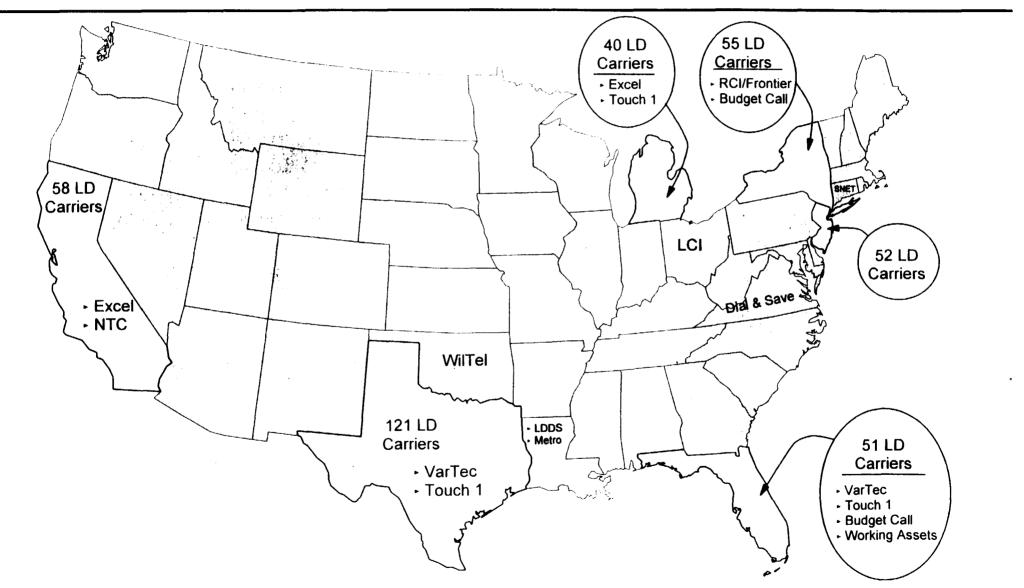
	MCI	Sprint LD	<u>Others</u>
Est. Total Revenue	\$13.3B	\$6.8B	\$5.0B
Est. Cash Flow	\$2.0B	\$2.1B ¹	\$1.0B (est.)
Est. # Employees	37K	19K	14K
Est. # Residential Customers	17M	8M	6M

¹ Represents Sprint total company including local, etc.

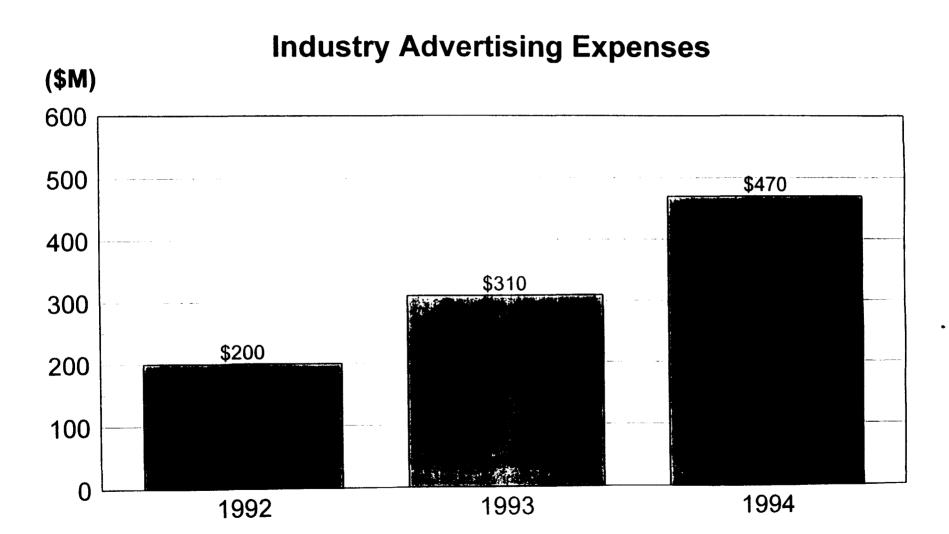
Foreign competitors are investing in the domestic long distance market and changing the landscape and nature of competition.



Regional carriers greatly increase competitive activity in the 6 states shown below.

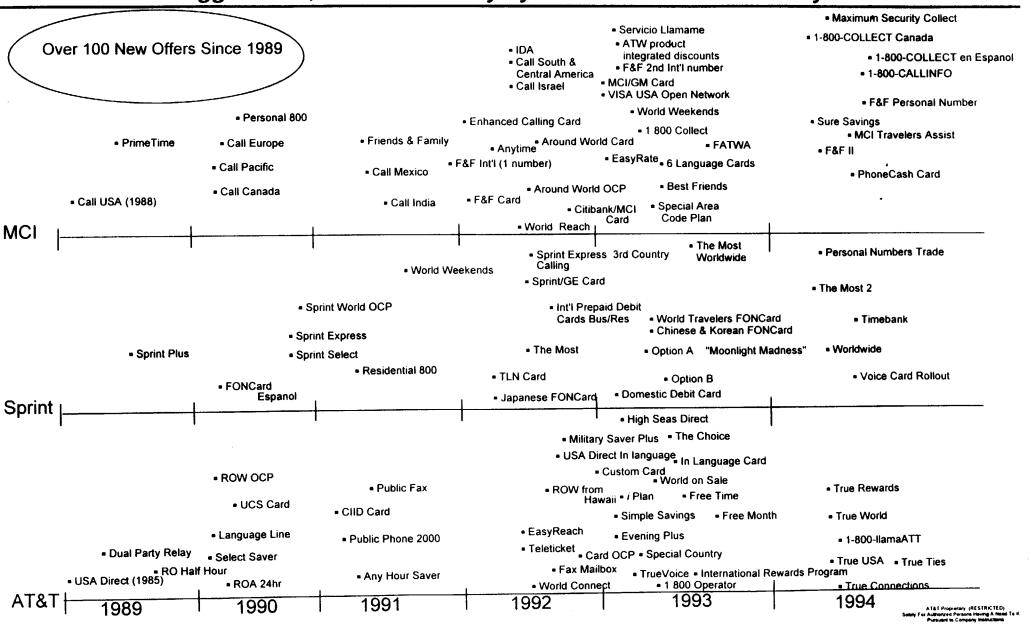


Industry advertising expenses have consistently increased significantly year over year; reflecting the need to constantly arm consumers with information on new products and services.



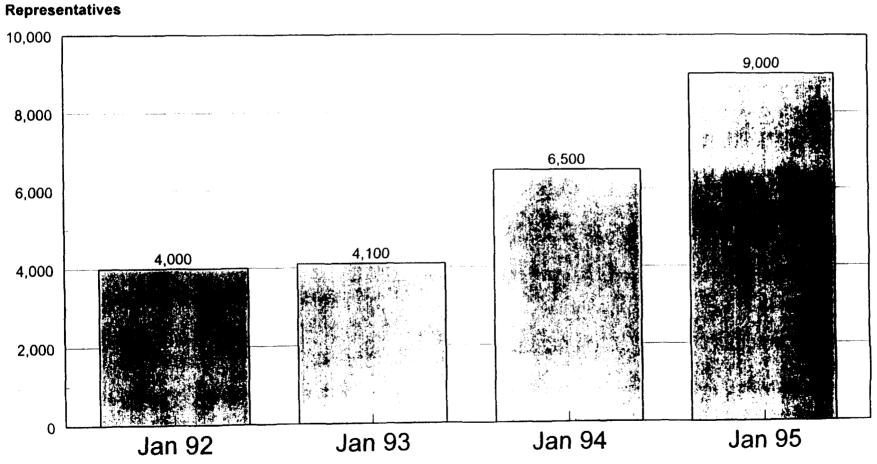
Competition - Level of Market Activity

Competitors provide a broad array of choices for consumers in services, new features, price promotions and loyalty programs. As the competition expands and becomes more aggressive, market delivery cycle times are continuously shortened.



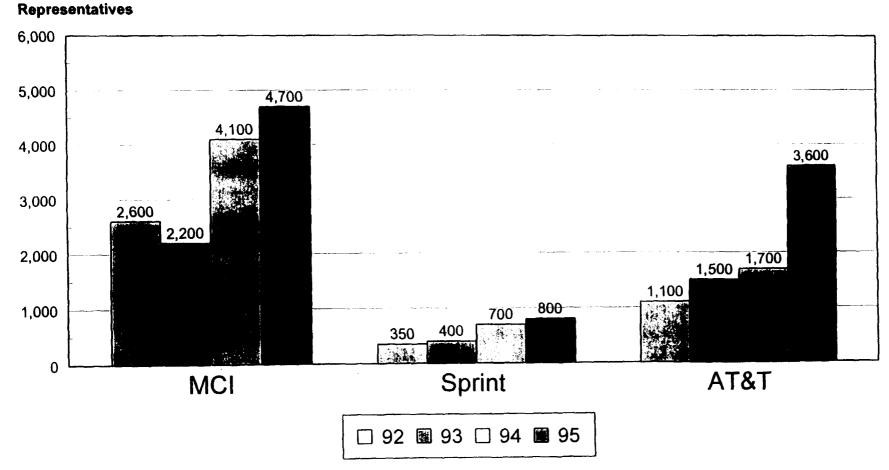
Industry telemarketing resources have grown significantly year over year to fight for a customer's choice.

Industry Telemarketing Capacity

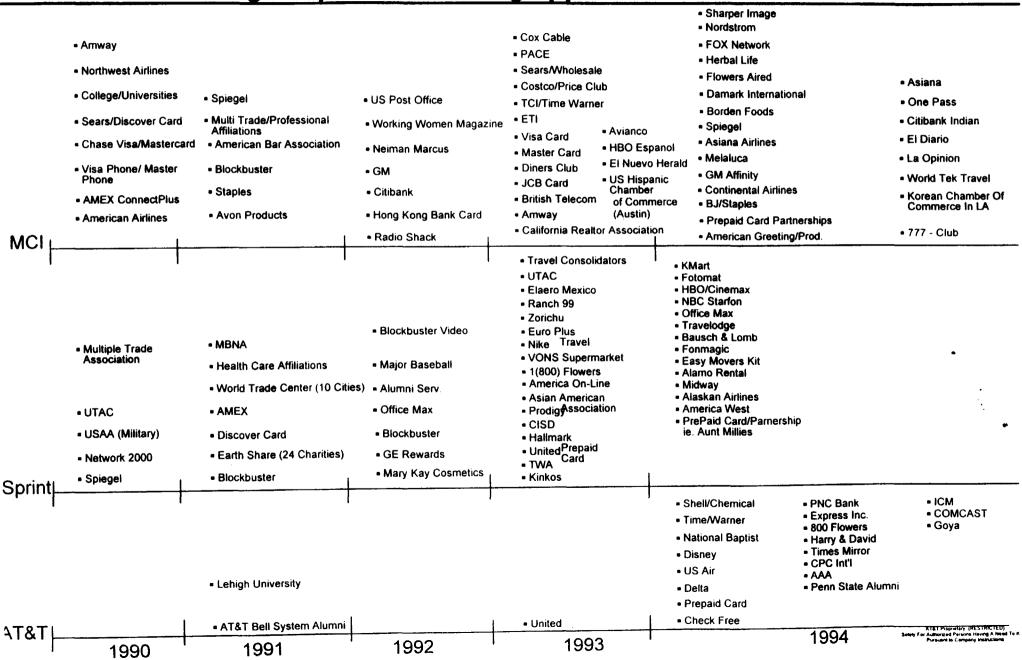


In an effort to fight for a customer's choice, all companies are significantly increasing their telemarketing resources.

Telemarketing Capacity by Company

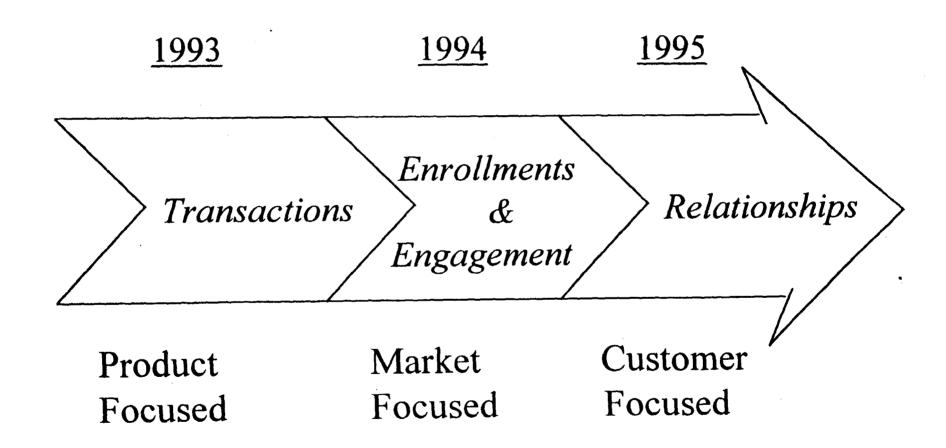


Expanding the scope and capacity of sales efforts significantly increases the competitiveness of the industry by improving the ease of customer contact and raising the potential selling opportunities.

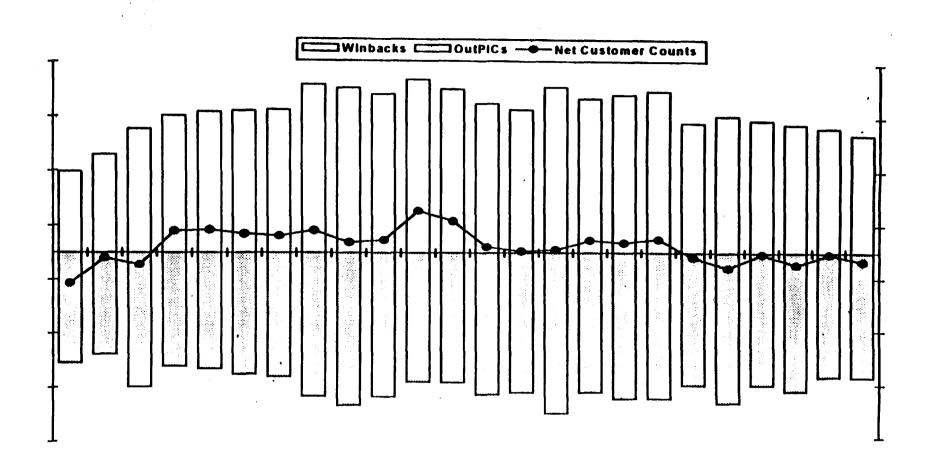


Competition - Level of Market Activity

As a result of this market becoming more competitive, customers have come to expect more from their long distance carrier, evolving from a transaction to a service enrollment to eventually, a full relationship.



The game is so competitive in the consumer long distance market that customer choice is played strictly at the margin on a month by month basis.



Competition - Summary

The telecommunications industry is one of the most competitive markets in the world.

Customers' Freedom of Choice

 Customers are overwhelmed with choice, have no barriers to exit, and many are provided with lucrative incentives to change carriers.

Competitors' Rivalry

 Since AT&T's Divestiture, competitors in the consumer long distance market have become financially strong companies and are capable of attracting large and significant foreign investors/partners.

Level of Market Activity

 Since the early 90's, competitors have increased their marketing activities three fold and new product introduction cycles have been reduced significantly, sometimes to a few days.